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May 22, 2009

Craig Knoell, OCP Program Manager  
Rocky Mountain Regional Office  
Western Area Power Administration  
5555 East Crossroads Blvd.  
Loveland, Colorado 80538

Re: Proposed Operation Consolidation Program (OCP)

Dear Mr. Knoell:

I attended the Informal Customer Meeting at the Desert Southwest Office of Western on this subject. At that meeting, you solicited comments on the proposal and questions as well, to be submitted by June 22, 2009. Rather than wait, I thought I should get my thoughts to you now while they are still fresh in my head.

The powerpoint presentation Western utilized yesterday morning included a slide that apparently would be page 19 if it were paginated. It showed how the proposed five-year average estimates of labor and other costs would be projected for FY 2008 for both DSW and RMR as against the actual costs allocated by project in those two regions. The net result was a cost shift of \$270,000 to DSW and away from RMR.

During the meeting, I asked why there would be a problem worrying about cost shifts if a five-year average were used for estimating costs and collecting them but actual costs were then determined at the end of each year. Actual costs could then form the basis for a "true-up" by project by region, probably in the form of forward credits, thus ensuring that no project would subsidize another, either within a region or from region to region.

After the meeting, the response I got was that personnel would have to do time sheets in order to allocate their time, either at DSW or RMR, in order to attribute their work to a specific project. However, the five-year average was intended not only to provide a consistent cost allocation methodology but to substitute totally for the need of Western personnel to keep track of their time by project and task. That was a revelation.

As I explained during the meeting, using a five-year average guarantees cross-subsidization in any given year. Unless the numbers predicted for every project in both regions somehow came out under the formula exactly as the costs actually were incurred, a virtual mathematical improbability, cross-subsidization would occur because the estimated numbers would never match the actual expenditures.

Thus, you are asking us to support a system that automatically guarantees cross-subsidization between and among projects and regions merely because Western employees don't want to keep time sheets and Western's managers don't want to have to force them to do so.

I would note that complaining to a lawyer about keeping time sheets is a complaint that falls on deaf ears.

More importantly, Western is obligated by law to accurately assign costs to each of its separately authorized projects for which it manages facilities and markets resources. It doesn't have a choice. Administrative convenience is not a legal ground for cross-subsidization.

My understanding of this effort when it was initiated was that additional requirements emanating from the Energy Policy Act of 2005 and, subsequently from the Federal Energy Regulatory Commission, were going to require additional personnel. Consolidation of function was a mechanism to minimize these additional costs by combining process and function where it made sense to do so, thereby keeping costs down. Everyone I know paying attention to this process thought those were laudable goals. I still do.

But consolidating function and consolidating bookkeeping are two different exercises. Western cannot escape its requirement to do cost allocation by project because the beneficiaries of each project are different as are the contractors for the resources Western manages.

Western's customers deserve a fair and accurate accounting of Western's spending, by authorization, that is, by project and program. The law requires that costs be allocated correctly.

I would also note that the presentation showed that trust projects and direct allocation spending of resources given to Western under the Contributed Funds Act or other authorities would be kept separate in any event. Thus, Western personnel will have to keep time sheets among trust projects and direct allocation projects while keeping those separate from each other as well as keeping them separate from work on other activities. The time sheet will not go away.

In the private sector legal world, keeping accurate and complete time sheets is a performance review matter. There is no reason I know of that it should not be the same at Western.

Consolidate function if you will. But account for costs project by project as the law requires. Each of your customers needs to know that the revenues they collect from their consumers for resources acquired from Western are being spent on those resources and not someone else's. We have that obligation to them and you have that obligation to us.

Craig Knoell  
May 22, 2009  
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Sincerely,

/s/

Robert S. Lynch  
Counsel and Assistant Secretary/Treasurer

RSL:psr

cc: Tim Meeks, Administrator, Western Area Power Administration  
Darrick Moe, Regional Manager, Desert Southwest Region, WAPA  
Thomas R. Boyko, Acting Regional Manager, Rocky Mountain Region, WAPA  
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